

**ORIGIN OF PRESENT FINANCIAL STANDARDS
18702.2 (1988 AMENDMENTS)**



California Fair Political Practices Commission

August 2, 1988

TO: Interested Persons

As you have requested, attached are the materiality regulations adopted by the Commission at its July 26, 1988 meeting. (2 Cal. Code of Regs. 18702, 18702.1, 18702.2, 18702.3, 18702.4, 18702.5 and 18702.6.)

It is anticipated that the regulations will become effective sometime in October. If you have any questions, please feel free to call the Legal Division at (916) 322-5901.

Amend 2 Cal. Code of Regs. Section 18702.2 to read:

18702.2. Material Financial Effect: ~~on a~~ Business Entity Indirectly Involved in the Decision

~~(a) This section shall be used to measure whether the~~
~~The reasonably foreseeable effect (whether direct or indirect)~~
of a ~~governmental~~ decision ~~will be~~ is material as to a business entity in which an official has an economic interest. if any of the following applies:

~~(b) An official has an economic interest in a business entity if one or more of the following criteria are met:~~

~~(1) The business entity is a source of income (including gifts) aggregating \$250 or more provided to, received by or promised to the official within the preceding 12 months.~~

~~(2) The official has a direct or indirect investment worth \$1,000 or more in the business entity.~~

~~(3) The official is a director, partner, employee, trustee of, or holds any position of management in, the business entity.~~

~~(c) The effect of a decision on~~ (a) For any business entity listed on the New York Stock Exchange or the American Stock Exchange ~~will be material if:~~

(1) The decision will result in an increase or decrease to the gross revenues for a fiscal year of \$250,000 or more, except in the case of any business entity listed in the most recently published Fortune Magazine Directory of the 500 largest U.S. industrial corporations or the 500 largest U.S. nonindustrial corporations, in which case the increase or decrease in gross revenues must be \$1,000,000 or more; or

(2) The decision will result in the business entity incurring or avoiding additional expenses or reducing or eliminating existing expenses for a fiscal year in the amount of \$100,000 or more, except in the case of any business entity listed in the most recently published Fortune Magazine Directory of the 500 largest U.S. industrial corporations or the 500 largest U.S. nonindustrial corporations, in which case the increase or decrease in expenditures must be \$250,000 or more; or

(3) The decision will result in an increase or decrease in the value of assets or liabilities of \$250,000 or more, except in the case of any business entity listed in the most recently published Fortune Magazine Directory of the 500 largest U.S. industrial corporations or the 500 largest U.S. nonindustrial

corporations, in which case the increase or decrease in assets or liabilities must be \$1,000,000 or more.

~~(d)~~ (b) ~~The effect of a decision on~~ For any business entity listed on the National Association of Securities Dealers' National Market List (securities of companies on this over-the-counter market list are registered with and subject to the Security and Exchange Commission's rule requiring tape reporting of last sale information [17 CFR Section 240.77 Aa3-1]) ~~will be material if:~~

(1) The decision will result in an increase or decrease in the gross revenues for a fiscal year of \$150,000 or more; or

(2) The decision will result in the business entity incurring or avoiding additional expenses or reducing or eliminating existing expenses for a fiscal year in the amount of \$50,000 or more; or

(3) The decision will result in an increase or decrease in the value of assets or liabilities of \$150,000 or more.

~~(e)~~ (c) ~~The effect of a decision on any~~ For any business entity not covered by ~~(e)~~ subdivisions (a) or ~~(d)~~ (b) but which is listed on the Pacific Stock Exchange or is qualified for public sale in this state ~~pursuant to~~

~~Corporations Code Section 25110~~ and is listed on the Eligible Securities List maintained by the California Department of Corporations (which applies to partnerships and other business entities as well as corporations), ~~will be material if:~~

(1) The decision will result in an increase or decrease in the gross revenues for a fiscal year of \$30,000 or more; or

(2) The decision will result in the business entity incurring or avoiding additional expenses or reducing or eliminating existing expenses for a fiscal year in the amount of \$7,500 or more; or

(3) The decision will result in an increase or decrease in the value of assets or liabilities of \$30,000 or more.

~~(d)~~ (d) For any business entity not covered by subdivision (a) which meets the financial standards for listing on the most recently published Fortune Magazine Directory of the 500 largest U. S. industrial corporations or the 500 largest U. S. nonindustrial corporations, the tests in subdivision (a) applicable to business entities listed on the New York or American Stock Exchanges may be applied.

(e) For ~~businesses~~ any business entity not covered by subdivisions (a) or (b) ~~(c) or (d)~~ which ~~meet~~ meets the financial standards for listing on the New York Stock Exchange, the tests in subdivision ~~(d)~~ (b) may be applied. The standards

are as follows: The business entity has net tangible assets of at least \$18,000,000 and had pre-tax income for the last fiscal year of at least \$2,500,000.

(f) For ~~businesses~~ any business entity not covered by subdivisions (a) or b) ~~(c) or (d)~~ which ~~meet~~ meets the financial standards for listing on the National Association of Securities Dealers National Market List, the tests in subdivision ~~(c)~~ (c) may be applied. The standards are as follows: The business entity has net tangible assets of at least \$4,000,000, and had pre-tax income for the last fiscal year of at least \$750,000, with net income from that period of at least \$400,000.

(g) For ~~business entities which are~~ any business entity not covered by subdivisions (a), (b), (c), (d), (e) or (f) ~~the effect of a decision will be material if:~~

(1) The decision will result in an increase or decrease in the gross revenues for a fiscal year of \$10,000 or more; or

(2) The decision will result in the business entity incurring or avoiding additional expenses or reducing or eliminating existing expenses for a fiscal year in the amount of \$2,500 or more; or

(3) The decision will result in an increase or decrease in the value of assets or liabilities of \$10,000 or more.

AUTHORITY: Gov. Code Section 83112
REFERENCE: Gov. Code Section 87103